

Message Text

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E.O. 11652:

TAGS: ECON,OECD, GW

SUBJECT: EDRC ANNUAL REVIEW OF GERMANY, APRIL 16

REF: OECD PARIS 9301

1. DOCUMENTS FOR EDRC REVIEW OF GERMANY APRIL 16 WERE
RECEIVED HERE JUST PRIOR TO COB APRIL 14. WE ARE THUS
NOT WELL PREPARED TO OFFER QUESTIONS OR COMMENTS.

2. OUR MAIN AREA OF CONCERN IS THE PROSPECT, NOT DISPUTED
BY THE FRG, OF ANOTHER MASSIVE SURPLUS ON CURRENT ACCOUNT
THIS YEAR. US REP SHOULD SEEK TO ELICIT FRG VIEW ON
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ACCEPTABILITY OF LARGE CURRENT SURPLUS AND WHAT COULD OR

SHOULD BE DONE ABOUT IT. THIS MUCH SAID, WE DO NOT WISH TO GET INTO ANY DEBATE OVER WHAT THE GERMAN CURRENT BALANCE "SHOULD" BE. THE FOCUS SHOULD BE ON GERMAN POLICIES WITH A VIEW TO DETERMINE WHETHER, TAKEN AS A WHOLE, THEY ARE APPROPRIATE. WHAT IS THE BASIS FOR THE SECRETARIAT'S FORECAST THAT THE CURRENT SURPLUS WILL INCREASE?

3. MISSION MAY SUPPORT SECRETARIAT URGING THAT AUTHORITIES BE PREPARED TO ACT QUICKLY IF ANTICIPATED RECOVERY DOES NOT MATERIALIZE OR DOES NOT APPEAR TO BE SUSTAINABLE.

HOWEVER, WE ARE NOT NOW PREPARED EITHER TO ACCEPT OR REJECT SECRETARIAT'S CONTENTION (PARA 2 REFTTEL) THAT RECOVERY WILL NOT MATERIALIZE UNDER PRESENT POLICIES. WE ARE NOT PERSUADED BY SECRETARIAT'S ARGUMENTS (PARAS 20-22 EDR(75)8) OF THE NEED FOR BIGGER PUBLIC DEFICIT IN MEDIUM AS WELL AS SHORT RUN.

4. WITHOUT HAVING FULLY STUDIED EDRC DOCUMENTS, WE OFFER FOLLOWING COMMENTS:

A. INDEX OF FOREIGN ORDERS (1970 BASE) IN VALUE TERMS FELL FROM 196 IN OCTOBER TO 146 IN JANUARY. IN VIEW OF LARGE ROLE OF EXPORTS IN DETERMINING SIZE OF CURRENT BALANCE, WE WOULD BE INTERESTED IN HOW FRG SEES CHANGE IN SIZE AND COMPOSITION IN EXPORT DEMAND DURING COMING YEAR. WHEN WILL FULL EFFECT OF CHANGE IN EXPORT ORDERS BE SEEN IN ACTUAL EXPORTS?

B. UNEMPLOYMENT RATE, INCLUDING FOREIGN WORKERS, HAS HOVERED AROUND 5 DURING FIRST QUARTER. AS EMPLOYMENT CAN BE EXPECTED TO LAG BEHIND RECOVERY, IT WOULD BE OF INTEREST TO KNOW HOW FRG AND SECRETARIAT SEE UNEMPLOYMENT DEVELOPING OVER REMAINDER OF THE YEAR IN VIEW OF THEIR RESPECTIVE FORECASTS OF AVERAGE ANNUAL RATE OF UNEMPLOYMENT OF 3.0 AND 3.5 (PARA 3 REFTTEL).

C. INVENTORY BUILDUP IN 1974 WAS 0.8 BILLION DM MEASURED IN CONSTANT (1962) TERMS, FAR LESS THAN INVENTORY LIMITED OFFICIAL USE

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BUILDUP IN SOME PREVIOUS PERIODS OF SLACK DEMAND. WOULD THIS NOT PUT FRG IN GOOD POSITION TO UNDERTAKE RECOVERY, CONTRARY TO SECRETARIAT SUGGESTION PARA 2 REFTTEL? WHAT IS BASIS FOR SECRETARIAT'S ESTIMATE OF INVOLUNTARY INVESTMENT BUILDUP?

D. IN FRG VIEW, HAVE RECENT INCREASES IN GOVERNMENT EXPENDITURES AND TAX REFORM HAD IMPACT ON THE ECONOMY

THAT WAS ANTICIPATED?

E. WE WOULD NOTE THAT 8 PERCENT GOAL FOR GROWTH OF
MONETARY BASE IN 1975 WAS NOT NECESSARILY FIRMLY FIXED FOR
THE WHOLE YEAR, BUT WAS SET BY BUDESBANK "AS SEEN FROM
TODAY'S VIEW" IN DECEMBER 1974.

F. DO GOVERNMENT BORROWING REQUIREMENTS TO FINANCE
DEFICIT AND PRIVATE SECTOR NEEDS TO CONVERT BANK LOANS TO
LONGER TERM INSTRUMENTS SUGGEST GREATER CONGESTION THIS
YEAR IN CAPITAL MARKETS THAN IN THE PAST? KISSINGER

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